

# The Steep Price of Paying to Stay:

## *Baltimore City's Tax Sale, the Risks to Vulnerable Homeowners, and Strategies to Improve the Process*

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### **The problem**

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Baltimore's long-established "tax sale" of unpaid taxes and other municipal bills to the highest bidder enriches investors at the expense of the city's poorest homeowners. Under the current process a homeowner can lose a house – and all its equity - for an unpaid tax bill as low as \$250 or unpaid water bills as low as \$350.

Property owners whose past-due bills are sold to investors are given months – or years – to reclaim them, but at a steep price. They must pay the liens, plus 18 percent interest and hundreds of dollars in court costs, legal fees and postage. A \$500 tax bill, for example, can climb to \$3,000 two years after the tax sale. The windfall from the interest and fees goes, not to the city, but to investors. Investors who do not receive full repayment from the property owner are allowed to file a foreclosure.

Homeowners who are unable to repay the debts can end up in a court process to foreclose the right to redeem. As of January 31, 2014, 2,805 open tax lien foreclosure cases for all property owners were pending in Baltimore Circuit Court. In many cases the investor does not complete the deed transfer following foreclosure, leading to confusion as to who actually owns thousands of properties. What happens to the original owners (and to their properties) is usually not known, but counselors, lawyers and advocates of low income homeowners say the tax sale can lead to evictions,

homelessness and property abandonment in a city already plagued with all three.

### **Who is affected?**

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Baltimore's tax sale is a large operation. In May 2014, 6,690 tax sale certificates were sold. Thirty-three percent, or 2,236, were for owner-occupied homes.

Data collected from an April 2014 clinic run by nonprofit lawyers for 82 homeowners facing tax sale shed a harsh light on the crisis. While the homeowners had lived in their houses on average for 21 years, their inability to pay the liens led them to the brink of losing their homes. Most were African Americans who live below the poverty level. Nearly half were elderly, 10 percent were veterans, while 32 percent reported being disabled. The average lien each would have to pay to avoid tax sale was \$2,482. More than three-quarters of the homeowners faced tax sale for unpaid water bills, while more than half had not paid property taxes. Though most of the homeowners were likely eligible for discounted property tax programs and a senior citizen water discount, a proportionally low number were receiving them.

### **The findings**

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The tax sale process treats every commercial, industrial, and residential property the same, and makes no exceptions for owner-occupied homes.

The bottom line is that the tax lien sale and redemption process challenges and confuses homeowners seeking to redeem their properties once the city sells the liens and unduly enriches the investors purchasing them.

- At \$250, Baltimore City's threshold amount at which residential liens are sold at tax sale is lower than in other cities.
- Baltimore City's 18% rate of redemption is punishingly high for homeowners seeking to redeem.
- The inclusion of water bills in the tax sale process compounds the problem, as low income households are challenged to absorb double digit rate increases in water bills or high bills due to leaks.
- Additional notice and outreach to homeowners to resolve issues leading to tax sale can make the difference between being able to pay and stay or losing a home.
- Homeowners living in their homes for 25 years or more can ill afford a recent lapse in Baltimore City's compliance with a 2008 state law requiring pre-tax sale outreach by each jurisdiction's department of aging.
- After the court foreclosure and deed transfer to a new owner, some homeowners losing their houses may be entitled to funds (from hundreds to thousands of dollars) that were bid in excess of the lien amount. While the amounts may not be sufficient to compensate homeowners for equity loss, the

city does not have a clear process for notifying owners who may be entitled to the funds or make best attempts to locate them.

### A national crisis, a range of local solutions

Tax sale foreclosures are a national crisis. A recent study by the National Consumer Law Center reported that annual tax delinquencies totaled \$15 billion by 2010.

Other cities faced with similar challenges of balancing collection of past due bills with reasonable protections, including New York City, Philadelphia and Washington, D.C., have enacted consumer-friendly laws to prevent the poorest homeowners from losing their houses. These include higher thresholds for tax sale, lower interest rates for homeowners repaying investors, monthly installment plans to pay overdue bills, improved notice to property owners of resources available to prevent tax sale and the appointment of a public ombudsman to help owner-occupants keep their homes.

### Recommendations

Improving and making the tax sale system fairer to Baltimore home owner-occupants will require action by both city and state officials. Key recommendations include:

#### Making the system fairer

- Increase the threshold lien amount eligible for sale to \$1,000.
- Lower the redemption interest rate for homeowners and reduce redemption fees.
- Exempt owner-occupied properties from tax sale for unpaid water bills.
- Provide notice to homeowners about excess fee refunds and use unclaimed funds to prevent homeowner tax sales.



#### Assisting vulnerable homeowners

- Improve notification to homeowners about tax sales and increase assistance for low-income homeowners.
- Improve access to existing credits for low-income homeowners.
- Offer installment payment programs which allow homeowners to pay based on income.
- Exempt low-income, senior, disabled and veteran owner-occupants from tax sale.

- Create an ombudsman position in city government to assist at-risk homeowners

### About the Report

“The Steep Price of Paying to Stay” was researched and written for the Abell Foundation by Joan Jacobson, a researcher and writer in Baltimore and a former newspaper reporter. The full report can be found at [www.abell.org/publications/abell-reports](http://www.abell.org/publications/abell-reports).